

Weekly Markets Commentary

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Investors Encouraged by Trade and Brexit - For Now. What’s Next?

Equities rose for the first time in four weeks on rising optimism that the U.S. and China are making constructive progress in their restarted trade negotiations. As we learned on Friday, the scope of what was agreed to was quite limited, as expected, but it is a start. China apparently agreed to buy more U.S. agricultural products and the U.S. agreed to suspend the tariff increase scheduled to take effect this week. But China wants to discuss further the so-called phase one agreement before the end of the month to hammer out the details before it can be finalized.

What the phase one deal doesn’t do is roll back any tariffs that are already in place. The drag they exert on economic growth remains ongoing. And while any rollback was certainly too much to ask at this early stage of the negotiation process, hopefully we get there at some point.

Nevertheless, equity investors liked enough of what they heard to take stocks sharply higher on Friday, driving the S&P 500 to a gain of 0.6 percent on the week. But it remains to be seen for how long Friday’s agreement is enough to keep stocks rising. Investors will soon enough want to see some real progress on the issues that are hindering global growth, namely tariffs and supply chain certainty.

Investors Buoyed by Brexit Hopes

The good news got even better last week after British Prime Minister Johnson and Irish Taoiseach Varadkar said they could see a pathway to a Brexit deal between the United Kingdom (U.K.) and European Union (EU). The two agreed to a possible solution to the question of how to treat the Irish border with Northern Ireland. There is a long way to go to turn this breakthrough into a deal, but not a lot of time. Johnson must strike his deal at this week’s EU Summit, and then quickly convince parliament. October 31 is the deadline for the U.K. to leave, with or without a deal. Events are moving quickly, and as the Prime Minister said on Friday, there is a significant amount of work to be done. EU leaders have expressed their skepticism, as have members of the Prime Minister’s governing coalition. If needed, another EU summit could be scheduled for later in the month, and the deadline could also be extended for a third time.

But as with the U.S.-China negotiation, hope springs eternal, and European equity prices soared to end the week. The EuroStoxx 600 index climbed 3.0 for the week. The German DAX index surged higher by 4.2 percent on the week, while the UK FTSE 100 lagged behind, held back by a sharp rise in the pound.

Bond Yields Rise; Q3 Earnings Season Begins with the Big Banks

Bond yields also soared last week. The ten-year U.S. Treasury note climbed 20 basis points to 1.73 percent, although it remains well below the 2.50 percent yield that prevailed when trade talks broke down in May. High yield credit spreads narrowed, but the tightening in investment grade was more muted. The ten-year German bond yield rose 14 basis points to -0.45 percent.

While trade developments will remain front of mind for investors this week, they will be joined by the start of third quarter earnings season. Expectations are quite modest. The big banks kick things off amid a challenging environment for net interest margins, loan growth, and investment banking activity. Tuesday is a big day with Citigroup, JP Morgan, Wells Fargo, and Goldman Sachs all scheduled to report, with Bank of America and Morgan Stanley following later in the week.

What's Next in the Economic Calendar

On the economic calendar, Wednesday's retail sales report will be closely watched to see if the consumer sector continues to be the workhorse of the U.S. economy. Last Friday, the University of Michigan's consumer sentiment survey rebounded for the second straight month following a sharp decline in August. Also, on this week's calendar are housing starts, industrial production, and leading indicators.

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S&P 500 Index: Is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region.

The DAX (Deutscher Aktienindex) is an index of the 30 most actively traded German blue-chip stocks on the Frankfurt Stock Exchange.

The FTSE 100 is a market-weighted index of the 100 leading companies traded in Great Britain on the London Stock Exchange.

University of Michigan Consumer Sentiment Survey is a rotating panel survey based on a nationally representative sample that gives each household in the coterminous U.S. an equal probability of being selected. Interviews are conducted throughout the month by telephone. The minimum monthly change required for significance at the 95% level in the Sentiment Index is 4.8 points; for Current and Expectations Index the minimum is 6.0 points.

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